

**Testimony on Proposed Living Wage Ordinance
For Atlanta, Georgia**

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INTRODUCTION

Personal Background

My name is Robert Pollin. I am a Professor of Economics as well as Co-Director of the Political Economy Research Institute (PERI) at the University of Massachusetts-Amherst. My areas of research and teaching specialization include labor markets, the causes of unemployment, economic policy, and applied statistical methods. In particular, I have done extensive research on living wage ordinances since the summer of 1996. With a small group of co-workers over that 6 ½ year period, I have published a book on the subject, and have also written three full-scale impact studies of ordinances in Los Angeles, New Orleans, and Santa Monica, CA, and seven academic papers that have either been published, are forthcoming, or are working papers (I list the main references at the end of the paper). In 1999, I was hired by the City of Santa Monica as consultant on their living wage proposal, and gave expert testimony at a district court trial on the measure that passed in New Orleans in February 2002. I have also spoken on the subject throughout the country in a wide range of settings, including government hearings, university seminars, and public lectures. Presently my colleagues at PERI and I are completing an extensive post-implementation analysis of the living wage ordinances in Boston as well as Hartford and New Haven, Connecticut. This testimony draws primarily from this previous work. But I also focus my discussion to the particular now before you here in Atlanta.

In addition to this work, I have done economic policy advising for Gov. Jerry Brown, the Joint Economic Committee of the U.S. Congress, the United Nations Development Program, and as a member of the Capital Formation Subcouncil of the U.S. Competitiveness Policy Council.

Background on U.S. Living Wage Laws

Living wage proposals have passed into law in about 90 municipalities in the United States since the Baltimore City Council approved the first ordinance in 1995. But this is not the first living wage movement in the U.S. Indeed the initial establishment of minimum wage laws in the U.S.—first at the state level beginning with Massachusetts in 1912 then moving to the Federal level through various measures between 1933-36—was itself the culmination of an explicit “living wage” movement. One of the most influential works supporting the movement was a 1906 book by Monsignor John A. Ryan titled *A Living Wage: Its Ethical and Economic Aspects*. By the mid-1930s, President Franklin D. Roosevelt made his position on the issue clear, stating that “no business which depends for existence on paying less than living wages to its workers has any right to exist in this country.”

The contemporary living wage movement began in Baltimore not through the work of political activists, academics, or unions—but rather because religious workers running homeless shelters and soup kitchens observed that increasing numbers of people with families and jobs were relying on their charitable services. If a worker with a job still needs to bring her/his family to a soup kitchen to get through the week, the message is clear: the wages that the worker is earning are not sufficient to maintain herself and her family at a minimally decent and dignified living standard.

Though the religious workers in Baltimore did not consult statistics to reach the conclusion that a renewed living wage movement was needed in the U.S., their observations were consistent with clear evidence as to the declining fortunes of low-wage workers and, more generally, the sharply rising trend in wage and income inequality in the U.S. economy. Thus, as we can see in Figure 1, the real value of the national minimum wage as of 2001, at \$5.15 per hour, was 37 percent below its peak value in 1968 of \$8.14 (expressed in constant 2001 dollars; *please also note that Figure 1 and all Tables to which I refer are found at the end of this document*). This means that, outside of those exempt from minimum wage laws and after controlling for inflation, the lowest-paid legally employed workers in the United States in 1968 were earning \$8.14 an hour. In other words, even a teenager coming to work for his or her first day at McDonalds would legally earn no less than \$8.14 an hour in 1968. It is also important to recognize that average labor productivity rose in the U.S. by roughly 80 percent between 1968 – 2001. This means that if the real value of the national minimum wage had risen exactly in step with the rate of productivity growth—and no more than that—the minimum wage as of 2001 would be \$14.65. Even more to the point, someone who works full-time for 52 weeks at the \$5.15 national minimum would earn \$10,712 over a year. This figure is 12.2 percent below the 2001 national poverty threshold for a family of two (1 adult, 1 child) and a broad range of researchers consider such official poverty thresholds themselves to be between 25 and 50 percent too low (as I discuss more below).

Despite these trends, opponents of living wage ordinances argue that these measures will not benefit, but will actually hurt, the very low-wage workers and their families that the movement is trying to assist. In other words, according to opponents, the living wage movement is a classic case of the “law of unintended consequences” as it operates in economics—that is, well-meaning people ending up doing harm while seeking to do good, through their misapprehension as to how economic policy interventions play themselves out in actual market settings. Opponents point to three major unintended consequences of living wage ordinances that are relevant for the Atlanta proposal:

- 1) They will cause a decline of job opportunities for low-wage workers and/or a displacement of currently employed workers by those possessing higher skills.
- 2) They will induce firms located in Atlanta to relocate as a means of avoiding being covered by the mandates of the law; and
- 3) They will place a severe cost burden on the budget of the City of Atlanta, perhaps even forcing cuts in vital City-funded services for low-income families.

These concerns that critics raise are very serious; indeed, they need to be examined especially hard by anyone who is favorably disposed toward the living wage idea. No doubt the last thing that any living wage advocate would want as the outcome of their efforts is for a living wage ordinance to make low-wage workers worse off.

These are the issues on which I have focused my research since 1996. I would like to share some of my main findings as they apply to the situation in Atlanta. I would first like to examine the question “who would benefit from the living wage ordinance?” I will then consider “who will bear the costs of the living wage ordinance?” In examining this second question, I will obviously need to focus on how businesses that presently employ low-wage workers are likely to adjust to the increased labor costs they will face.

WHO ARE THE LOW WAGE WORKERS IN ATLANTA?

In Tables 1-3, I provide some basic evidence as to who are the low-wage workers in the Atlanta metropolitan area. The source for data in these tables is the Current Population Survey put out by the U.S. Bureau of Labor Statistics and Census Department.

Basic Demographics.

To begin with, we see in Table 1 (again, found at the end of the document) that there are a total of nearly 60,000 workers in the City of Atlanta proper area who, as of 2002, were earning between \$5.15 - \$10.50. These workers constitute about 21 percent of the working population about 286,000 in City of Atlanta itself (the broader metropolitan area has a much larger workforce of nearly 2.4 million) The basic demographic facts about these workers are as follows:

- The average age of these workers is 35.2, and their average estimated labor force tenure is 16.7 years. For the most part therefore, the jobs these workers hold now reflect their long-term occupational trajectory. They are not on a career ladder that will be moving them to a significantly better job situation.
- About 7 percent of the workers in this wage range are teenagers. Another way to express this statistic is to say that 93 percent of those who would be covered by the living wage ordinance are adults¹
- Over 40 percent of these workers are non-white and 56 percent are female.

Family Structure and Income Levels

What is the family status of workers who would be covered by the living wage ordinance? Table 2 (end of document) provides some evidence on this. The average low-wage worker is living in a family with two other people, and there is one other person in the family holding a job. However, we also see that the low-wage worker in the family is the primary breadwinner, contributing nearly 60 percent to the family’s overall earnings. Low-wage families frequently do not live only off of their own earnings however. Families with working members

¹ There is another significant dimension to the incomes brought home by teenagers, which is, how much do the teenagers contribute to their family’s overall living standard? Are they mostly middle-class kids buying CDs, clothes and car accessories? Or are they contributing significantly to meeting their family’s basic needs? I have not had time to examine this with respect to Atlanta. But my colleagues and I did study this question in some detail when we wrote our study on Santa Monica. We found that the family incomes of the teenager workers was about 38 percent above the average—in other words, that the families that included the teenage workers were better off than the average family but not dramatically so. Moreover, the contribution of the teenagers to the family’s overall income was playing an important role in bringing the overall income to the higher level.

can also get funds from alimony and child support payments, pensions and government programs such as unemployment insurance and workers' compensation. Thus, in the next row of the table, we also see how much of the total family income—including all sources in addition to wages—that the low-wage workers in our sample contribute through their wages. As we see, that figure is over 50 percent. That is, after taking account of all possible other sources of income, including the wages of other family members, pensions, and government supports, the workers earning below \$10.50 an hour in Atlanta bring home more than half of what their family has to spend in a year.

Mean and median measures of family income. What is the income level of these families? We face some statistical difficulties in sorting this out, because we get a different picture when we observe mean and median figures. To illustrate the statistical problem, consider the following example. Take four workers with the following amounts of income: \$2,000, \$2,000, \$2,000, \$10,000. We calculate the mean by adding up the total amount of income of the four workers, which is \$16,000, and dividing by the number of workers, which is four. The mean income of these four workers is therefore \$4,000. We calculate the median by determining the amount of income that is most common among the four workers. The median income of the four workers is therefore \$2,000.

Which is the most accurate indicator of the reality we are trying to describe? Both the mean and median tell us something useful about the world. But the difference is that, with the mean, the one worker earning \$10,000 brings up the average substantially, and the resulting \$4,000 figure does not adequately capture the fact that most workers are earning \$2,000 and that no workers are actually earning \$4,000.

We see from Table 2 that the mean family income figures are significantly higher than the medians. Indeed, for workers earning between \$5.15 - \$8.50, the mean income of \$46,022 is nearly 60 percent more than the median of \$29,343. Despite these disparities, these figures tell us a couple of basic things. The first is that the highest concentration of low wage workers in Atlanta live in families whose income is in the range of \$20,000 - \$30,000. The second is that there are a small number of low-wage workers who live in much better off circumstances, with family incomes in the \$40,000 - \$50,000 range.

Poverty and Basic Family Budget Living Standard Benchmarks

In Table 3 (end of document), we obtain a further sense of the situation of the families in which low-wage workers live by comparing their incomes levels to some basic living standard benchmarks—specifically a poverty benchmark and a “basic family budget” benchmark. But for these benchmarks to be at all meaningful, we first need to briefly describe the ways in which they have been developed. Of course, the U.S. government has calculated for many decades its own measurements of a poverty benchmark for families of different types. But, as I have discussed in previous work, there are some serious problems with this standard. These problems have been widely recognized in the professional literature.

The basic concern with the official poverty line is that its methodology for measuring poverty has not been modified since the government first developed it in 1963, even though conditions facing the poor in the U.S. have changed substantially over the past 40 years.

When it was first developed, the government methodology began by determining the costs of families of various sizes subsisting on what the Department of Agriculture terms the “Economy Food Plan,”—which was the lowest cost bundle of food items available that could ensure each family member received the basic caloric minimum. Based on survey evidence from

the time, the government's methodology then assumed that poor families spent approximately one-third of their budget on food. Thus, to generate the dollar figures for the poverty threshold, the government simply multiplied the dollar value of the "Economy Food Plan" by three. In subsequent years, upward adjustments to the poverty thresholds were made every year using the annual rate of inflation.

The fundamental problem with this methodology is its assumption that the costs for the poor of purchasing basic necessities are accurately reflected in this annual inflation adjustment. In fact, the costs of necessities for the poor—including medical treatment, childcare, transportation, and especially housing—have risen faster than the overall rate of inflation as measured by the Consumer Price Index that applies to all urban households. Indeed, a large research project sponsored by the National Research Council provided a range of alternative methodologies that take account of the rising relative costs to the poor of non-food necessities.² Of particular interest for our purposes, the NRC reported that in considering six alternative methodologies, the average value for the poverty threshold generated by these six alternative methodologies was 41.7 percent higher than the official poverty threshold.

To obtain a better measure of poverty for Atlanta, we should therefore follow the results of the National Research Council studies, and raise the poverty line by 41.7 percent. To be cautious, I round this 41.7 percent figure down, and assume that an appropriate poverty threshold for Atlanta is about 40 percent above the official poverty line. I therefore report a 140 percent of official poverty as our basic Atlanta poverty line. I then also report "165 percent of official poverty" as a "near poor" standard. I do also report the official poverty threshold figures in Table 3, but consider this as properly measuring a "severe poverty" standard.

Finally, I report a "basic family budget" line. This concept draws on the work of numerous recent researchers, and is defined by Boushey, Brocht, Gundersen and Bernstein as providing "a realistic picture of how much income it takes for a safe and decent standard of living."³ Boushey et. al. have developed specific estimates of this concept for communities throughout the United States. For Atlanta, they estimate the following as constituting a basic family budget for a family with one parent and two children: \$688/month for housing; \$351/month for food; \$661/month for childcare; \$157/month for transportation; \$247/month for health care; \$322/month for other necessities; and \$386/month for taxes. This amounts to a total of \$2,812/month, or roughly \$34,000/year. For the various family types that they consider for Atlanta, they estimate basic family budgets as being between \$28,000 (one parent, one child) and \$48,000 (two parents, three children). Drawing from their methodology, I then also estimate the percentage of families with low-wage workers that fall below the basic family budget threshold.

In Table 3, we now are able to get a sense of what types of workers, along with their families, would be affected by the living wage ordinance. As we see, 11 percent of the families with low-wage workers in Atlanta now live below the official government poverty line, what I conclude, following the work of the National Research Council project, should properly be termed a "severe poverty" threshold. Moreover, still referring to the studies cited by the NRC, 24 percent of low-wage workers and their families live below what is a more reasonable poverty line and 31 percent are near poor. Finally, we see in Table 3 that 68 percent live below the basic family budget line.

² Constance F. Citro and Robert T. Michael, eds. 1995, Measuring Poverty: A New Approach, Washington, DC: National Academy Press.

³ Heather Boushey, Chauna Brocht, Bethney Gundersen, and Jared Bernstein, Hardship in America: The Real Story of Working Families, Washington, DC: Economic Policy Institute, 2001.

WHO WILL BEAR THE COSTS OF THE LIVING WAGE ORDINANCE?

Regardless of the family status of the affected workers, a living wage ordinance would obviously not benefit any of the families if the unintended consequences of the law—workers getting laid off; businesses relocating out of the city; or the City of Atlanta becoming overburdened with bearing the costs of the ordinance—ended up being the primary result from its implementation.

Businesses will certainly make adjustments to their higher labor costs, but laying off workers or relocating are not the only adjustments they can make. In fact, there are five basic ways that firms can adjust to the higher costs associated with a living wage ordinance. Layoffs or relocation are only two of the five options. The other three are: 1) increasing prices and pass-throughs to the City; 2) improving productivity; and 3) redistributing income within the firm through reducing profit margins or reducing the differences between the wages of the firms' lowest and highest paid employees.

There is, moreover, an important difference for the firms between adjusting through increasing prices/pass-throughs and productivity or income redistribution rather than through layoffs and relocations. It is that adjustments through price/pass-throughs, productivity, and income redistribution—if they can be managed—are less costly to the firms than adjusting through layoffs or relocations. Layoffs mean reducing the scale of operation of a business. Relocation is simply not a relevant consideration for the type of ordinance being considered in Atlanta. Firms that contract with the City will be covered by the ordinance, whether or not they are physically located within the City limits. There is therefore absolutely no incentive for them to relocate outside the city limits. Firms that receive financial assistance from the City would obviously no longer be eligible if they relocated out of the City.

Let us briefly consider the other possible adjustment paths for firms that would be covered by the ordinance.

Price/Pass-throughs. If firms can pass along all of their increased labor costs to consumers in the form of price increases, or to the City in the form of higher pass-throughs, they will be able to maintain their current profit margins without having to make any further adjustments in their operations. The relevant question, of course, is how high would prices or pass-throughs have to go to cover the increased costs of Atlanta's ordinance?

Along with colleagues, I have studied this question in some detail through conducting surveys of businesses in Santa Monica, CA, New Orleans, Boston, Hartford, CT, and New Haven, CT. We have found that for a large majority of covered firms, the increased costs they would bear due to the living wage ordinance amounts to about 1-1.5 percent of their total operating costs or sales. This would mean that an increase on the order of 1-1.5 percent would absorb most, if not all, of their increased costs. In other words, if they could raise their prices/pass-throughs by about 1-1.5 percent, they would be able to fully absorb the costs of the living wage ordinance without making any further adjustments in their operations—i.e. no losses in profits and no layoffs.

There will be firms that will experience cost increases due to the living wage in excess of the 1 – 1.5 percent average that we have seen in other cities. Those firms would obviously have receive larger pass-throughs or price increases to cover their costs. But because these firms

represent a small proportion of the total number of covered firms, the impact of their larger pass-throughs should still not be onerous. For Los Angeles, we estimated that approximately 7 percent of the covered firms would experience cost increases in excess of 10 percent.

Productivity. If affected businesses are able to cover most, if not all, of their increased costs through raising prices or pass-throughs, there wouldn't need to be any improvements in productivity to prevent a reduction in business profits. However, it is almost certainly the case that businesses will see productivity improve through raising wages of the lowest-paid workers. As a result of the Atlanta living wage ordinance, productivity should, first of all, improve through reductions in job turnover and absenteeism, which then allow firms to spend less money on replacing and supervising workers. Firms should also benefit through a general increase in morale that will come from the low-wage workers earning a living wage. Of course, the rise in productivity will fully compensate firms for the increase in their labor costs. If the rise in productivity did more than compensate businesses for the increased labor costs, then all of the businesses would voluntarily pay living wages without regard to whether a law mandated them to do so. The point is that, in most business settings, the rise in productivity can serve to at least partially offset the rise in costs, as a compliment and subsidiary to the rise in prices.

Income redistribution within firm. Of course, business owners don't want to cut into their profits. Higher-paid workers also don't want to see their own incomes cut so that the lowest-paid workers can get raises. Again, the main point here is that, if firms can absorb most, if not all, of their increased costs through raising prices and productivity, there would not have to be *any* redistribution within firms in order for the higher costs of a living wage ordinance to be fully absorbed. At the same time, it is worth remembering that income distribution in the U.S. has become increasingly skewed over the past generation. For example, according to *Business Week* magazine and the Bureau of Labor Statistics, the average CEO in the U.S. earned 54 times more than the average worker in 1987. But as of 2001, the average CEO earned 449 times more than the average worker.

Obviously, these comparisons between CEOs and average workers don't apply to every business in Atlanta. Still, along with the sharp decline we discussed above for the minimum wage since 1968 and similar trends for average wages, this ratio between our economy's best compensated managers and the wages of the average worker at least indicate that room exists in the economy for a more equitable income distribution. It is also the case that this shift in income distribution would not have to entail that higher compensated people would actually experience a pay cut to allow for the wage gains of low-wage workers. It would more likely entail that the wage increases of the highest paid workers would grow at a slightly lower pace for a year or two to allow for the lowest paid workers to obtain living wage increases.

Employment losses. Again, firms will not need to lay off any workers in the face of living wage cost increases if they are able to absorb their increased costs through price/pass-throughs and productivity increases or small changes in the firms' distribution of income. This dynamic was crucial to the important results by Profs. David Card of UC Berkeley and Alan Krueger of Princeton in their path-breaking book examining the employment effects of raising the state-wide minimum wages in New Jersey, *Myth and Measurement: The New Economics of the Minimum Wage*. Card and Krueger found that the New Jersey fast-food outlets that they surveyed were able to raise their prices by about the same amount as their total costs were increased, which amounted to about 3.4 percent. It is therefore not surprising that the firms Card and Krueger studied did not lay off their workers to any statistically discernable extent. Note also that these fast food restaurants would experience far higher cost increases through a living wage

ordinance than all other types of businesses. The cost increases experienced by most firms in Atlanta are likely to be about $\frac{1}{4}$ that of fast food restaurants.

Labor Substitution. Even if Atlanta firms did not reduce their number of employees at all in response to the living wage ordinance, a negative unintended consequence of the measure could still result through labor substitution—i.e. businesses replacing their existing minimum wage employees with workers having better skills or credentials. Because the covered firms in Atlanta would pay more than what workers could get for comparable positions with other firms, the job openings in Atlanta’s covered firms would likely attract workers with somewhat better credentials, on average, than those in the region’s general labor pool.

How significant would this effect likely to be? We examined this question in both our New Orleans and Santa Monica studies. Our approach was to first examine differences in personal characteristics between those who fell within the wage range close to the pre-living wage minimum and those who would fall within the newly mandated living wage minimum. In the case of Atlanta, for example, this would entail comparing the personal characteristics of workers close to the existing \$5.15 minimum relative to workers earning close to the proposed \$10.50 living wage minimum. In general, we did find that the pool of workers within the higher wage range had somewhat different characteristics. In particular, those in the higher wage category tended to be somewhat older; a higher proportion of them had high school degrees; and a somewhat lower proportion were ethnic minorities. If the living wage ordinance were to be implemented, the pool of workers seeking low-wage jobs within the city would tend to reflect differences in characteristics as well. In short, in short, some labor substitution is likely to occur.

But the most pertinent question is not whether *any* labor substitution will occur, but *how large* this effect is likely to be. From our analysis, we conclude that the effect will be modest. In fact, through comparing data on personal characteristics of workers within different wage ranges, we are actually establishing an *upper limit* as to the likely degree of labor substitution. This is because, by comparing figures on personal characteristics, we are effectively asking whether, if firms in Atlanta covered by the living wage ordinance were newly hiring their entire low-wage work force, and if they were advertising their job openings at a wage rate in the range of \$10.50 rather than \$5.15, how would the profile change of the newly hired workers?

Having thus defined the upper limit of labor substitution effects through these figures, the next step is to recognize why any actual labor substitution effects are likely to be far more modest. This is first of all because, in reality, businesses are unlikely to newly hire their entire workforce after a living wage law was enacted, nor would they want to do so. Rather, workers earning the higher minimum will be less inclined to leave their jobs, and their work effort should correspondingly rise. By the same token, businesses are not likely to terminate their existing workers, even if they have relatively poor formal credentials, as long as their performance is satisfactory. For most of the jobs that would be covered by the Atlanta ordinance—e.g. janitors, gardeners, parking lot attendants, elevator operators, clerical workers, cashiers—the qualities that would distinguish one worker from another will not likely be based primarily on formal qualifications such as years of schooling. Hiring “better workers” would rather most likely entail hiring people who work harder and are more conscientious in their duties.

As such, again, I would still expect some labor substitution to occur after the living wage ordinance was implemented. However, the size of this substitution is likely to be modest.

EVIDENCE FROM POST LIVING WAGE CONTRACT BIDDING PATTERNS

To date, there have been three studies that have examined how the implementation of living wage ordinances has affected bidding patterns for city-service contracts and the awarding of contracts with city governments.⁴ The first study, by Mark Weisbrot and Michele Sforza-Roderick (1996), examined contracts immediately after Baltimore implemented a living wage minimum that was 44 percent above the national minimum. Christopher Niedt, Greg Ruiters, Dana Wise, and Erica Schoenberger (1999) then conducted a follow-up analysis of the Baltimore experience three years later. More recently, my colleagues Mark Brenner and Stephanie Luce (2003) have examined changes in contract patterns associated with ordinances in Boston, as well as Hartford and New Haven Connecticut.

The initial Weisbrot/Sforza-Roderick study examined 46 contracts in Baltimore whose value of \$19.3 million represented 72 percent of the total value of contracts that were covered under the ordinance. The key finding of their analysis was that the total value of winning bids after implementation of the living wage ordinance rose by a negligible 0.2 percent in nominal terms relative to the value of the comparable pre-living wage contracts. In inflation-adjusted terms, this amounted to a decline of 2.4 percent in the total value of contracts after implementation of the living wage ordinance. These results by Weisbrot/Sforza-Roderick were then broadly confirmed in the later study of Baltimore by Niedt et al.

The findings by Brenner and Luce are similar, in that they find that costs for a given supply of contracted services did not consistently increase—and indeed more frequently declined—subsequent to implementation of living wage ordinances in Boston, New Haven and Hartford. In considering the Brenner and Luce study, we focus primarily on the results regarding Boston, since the Boston ordinance is far more extensive than those in Hartford or New Haven. The Boston ordinance has covered 166 contracts since its inception in 1999. The New Haven ordinance has covered nine contracts since 1997, while that in Hartford has covered only two contracts since 2000.

Among the 166 covered contracts in Boston, Brenner and Luce restricted their analysis to those that were likely to employ a sufficient number of low-wage employees such that these firms might experience a significant cost increase from the ordinance. The criterion Brenner and Luce used for including a firm in their sample was whether they employed five or more workers earning between \$8.71 and \$12.00 in 2000, with \$8.71 being the Boston living wage minimum in 2000. This reduced their sample of covered contracts to 29 firms that could potentially experience a relatively “high impact” from the living wage ordinance. Of these, 23 were contracts for the supplying of various types of special education services.

The results of the Brenner/Luce contract analysis for all three cities are presented in Table 4. First, with Boston, as we see, the weighted average annual change in amount of awarded contracts fell by 9.2 percent. This is over the fiscal years 1999-00 to 2001-02, during which period the living wage mandate ranged between 57 and 35 percent above the statewide minimum wage (Massachusetts increased its minimum wage from \$5.25 in 1999 to \$6.75 in 2002). And again, these results include only contracts awarded to firms that might possibly face significant cost increases from the Boston ordinance. The results from the nine contracts analyzed for New

⁴ In addition to these retrospective studies of contracting patterns, Neumark (2002) has produced a retrospective analysis of the effects of living wage laws throughout the U.S. on wages, employment, and poverty. However, the Neumark study is neither methodologically sound nor robust either statistically or substantively. Brenner, Wicks-Lim, and Pollin (2002) document in detail the weaknesses with Neumark’s study.

Haven are similar. As we see, the weighted average annual change in the awarded contract value was a decline of 10.9 percent.

This pattern of declining contract values is broken in the case of the two contracts awarded in Hartford after implementation of their living wage ordinance in 2000 – 01. These two contracts were for security guard services and temporary office assistants. As we see, the weighted value of these contracts did rise substantially, by 33.4 percent. Clearly, with these two cases, the contracting firms were able to receive substantial pass-throughs to cover their increased labor costs.

Of course, there is no reason to expect that living wage ordinances would *cause* the value of covered contract awards to decline, as they have, on average, in both Boston and New Haven. The implication of these declines in contract values is rather that, for the most part, factors other than living wage mandates have been more significant to firms in choosing how to make what turned out to be winning bids for city contracts.

But as we also saw with the two contracts in Hartford, there will be cases where the implementation of living wage ordinances is associated with substantial increases in contract values. Firms such as those in Hartford providing security guards and temporary office assistance are likely to be among the high-impact firms, in that they both employ a high number of low-wage workers and those workers constitute a high proportion of such firms' total labor costs. But even with such high-impact cases, we cannot assume that the living wage ordinance alone *caused* the awarded contract values to rise by 33 percent, since no such causal relationship emerged with the 29 high-impact firms in Boston.

In fact, Brenner and Luce observed that the particulars within any given bidding situation are important to determining the final selection of a winning bidder. In the Hartford experience with the security guards' contract, the establishment of the living wage mandate persuaded a total of nine firms that they could offer a competitive bid, seven more than had bid the contract before the living wage stipulations were included in the request for proposals. The initial two bidders were those that maintained labor costs as low as possible while the additional seven entrants competed more on the basis of quality than costs alone. This created the conditions in which the firm receiving the contract offered a bid 33 percent above the pre-living wage contract value. But this experience was distinct from that in Boston, in which Brenner and Luce found that contract values generally fell after implementation of living wage mandates in cases where the number of bids on a contract increased.

CONCLUSION

The evidence from bidding patterns in various cities broadly confirms my overall evaluation of the evidence concerning negative unintended consequences, including layoffs and increased costs to municipal governments. One certainly has to face head on the issues of negative unintended consequences in any serious assessment of living wage ordinances. But when the impact of living wage ordinances on most affected businesses firms is modest, such that they could fully absorb their higher costs through raising prices or pass-throughs by 1 – 2 percent, the likely adjustments firms and municipal governments will make will be of a comparably modest magnitude. Moreover, as we discussed, there will be some firms, such as security guard companies, in which cost pass-throughs are higher. But even if such firms do fully pass through their added costs from a living wage ordinance, the overall impact on city budgets is likely to be small, since these firms are likely to comprise a small proportion of total covered firms.

Overall then, raising prices/pass-throughs and productivity by a relatively small amount are likely to be the predominant means through which most affected firms will absorb their increased costs. In such cases, the gains of living wage ordinances to low-wage workers and their families will be larger than the costs of the ordinance that would be borne by either businesses, municipal governments or the consumers facing small price increases. To put this another way: a well-designed living wage ordinance has the characteristic that its benefits will be concentrated among low-wage workers and their families while the costs can be broadly diffused among the affected firms and their consumers.

Of course, the benefits of a living wage standard in Atlanta can't be fully captured by the types of statistical evidence that I have presented here. As Monsignor John Ryan recognized a century ago, paying workers a living wage is fundamentally a matter of human dignity and fairness. But for those of us that seek to increase fairness and raise the dignity of low-wage workers in our economy, it is our obligation to be as confident as possible that the means we employ will actually make a positive contribution toward the goal we desire.

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Real Value of United States Minimum Wage, 1960 - 2001

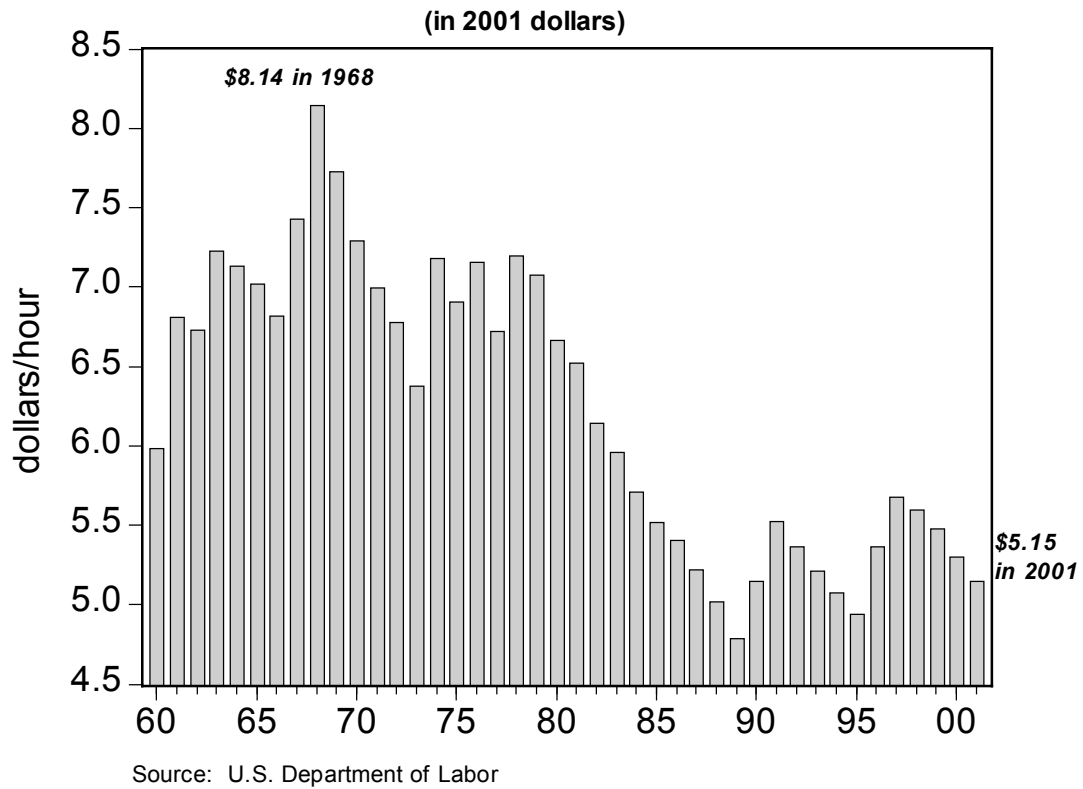


Table 1.
Basic Demographics of Low-Wage Workers in Atlanta, 2002

	Totals	Hourly Wage Rate Categories	
	\$5.15-\$10.50	\$5.15-\$8.50	\$8.51-\$10.50
Number of Workers	59,682	34,223	25,459
Percentage of Workforce	20.9	12.0	8.9
Average Age	35.2	33.8	37.0
Labor Force Tenure (years)	16.7	15.5	18.2
Percentage Teenagers	6.8	10.9	1.4
Percentage Non-White (including Hispanic)	43.5	42.8	44.4
Percentage Hispanic	8.6	10.4	6.2
Percentage Female	56.4	54.8	58.6

Source: Current Population Survey (2001-2002)

Table 2.
Family Structures and Earnings of Atlanta Low-Wage Workers, 2002

	Hourly Wage Categories		
	<i>\$5.15 - \$10.50</i>	<i>\$5.15 - \$8.50</i>	<i>\$8.51-10.50</i>
<i>Average Family Size</i>	2.8	2.9	2.8
<i>Average Number of Wage Earners per Family</i>	1.8	1.7	1.8
<i>Average Percentage of Total Family Earnings Contributed by Worker</i>	59.5%	59.1%	60.0%
<i>Average Percentage of Total Family Income Contributed by Worker</i>	51.6%	49.5%	54.6%
<i>Total Family Income (2002 dollars)</i>			
Mean Estimate	\$49,041	\$46,022	\$53,101
Median Estimate	\$34,489	\$29,343	\$37,666

Source: Current Population Survey (2001-2002)

Table 3.
Poverty Status of Atlanta Low-Wage Workers, 2002
 (Entries are percentages)

	Totals	Hourly Wage Rate Categories	
	\$5.15-\$10.50	\$5.15-\$8.50	\$8.51-\$10.50
Families in Severe Poverty (Below Official Poverty Line)	11.3%	17.7%	2.7%
Families in Poverty (Below 140% of Official Poverty Line)	23.8%	32.1%	12.7%
Near Poor Families (Below 165% of Official Poverty Line)	31.1%	39.2%	20.3%
Below Basic Needs Threshold	68.0%	76.4%	57.1%

Source: Current Population Survey (2001-2002)

**Table 4. City Service Contract Awards in Boston, New Haven and Hartford,
Before and After Living Wage Ordinance**

	Boston	New Haven	Hartford
Fiscal year of implementation	1999 – 2000	1997-98	2000-01
Mandated wage increase above statewide minimum	+ 57% in 1999 + 35% by 2002	+43% in 1997 +46% in 2001	+33% +86% with health benefits
Average annual change in contract values (weighted by contract size)	-9.2% [29 contracts}	-10.9% [9 contracts]	+33.4% [2 contracts]

Source: Brenner and Luce (2003).